CalChamber Taps Ruiz as Board Chair for 2009

Frederick R. Ruiz of Ruiz Foods has been elected as 2009 chair of the California Chamber of Commerce Board of Directors. Fred Ruiz is the co-founder of Ruiz Foods, along with his father, Louis F. Ruiz.

Fred Ruiz succeeds Edwin A. Guiles, executive vice president, corporate development of Sempra Energy, San Diego, in the top volunteer position for the CalChamber.

“I am honored to serve as chair of the 2009 CalChamber Board of Directors,” Fred Ruiz said. “As the leading voice for California employers, we will focus on restoring our state’s fiscal health and promoting a strong economy. I look forward to working closely with my colleagues on the CalChamber Board of Directors to pursue sound fiscal policy that will encourage a swift and strong rebound from the current recession. Ultimately, the solution to our economic situation must be robust growth and job creation.”

2009 Officers

Serving with Fred Ruiz as 2009 officers of the CalChamber Board are:
- **First Vice Chair Larree M. Renda**, executive vice president, chief strategist and administrative officer, Safeway, Inc., Pleasanton;
- **Second Vice Chair S. Shariq Yosufzai**, president, global marketing, Chevron Corporation, San Ramon; and
- **Third Vice Chair Timothy S. Dubois**, president, The Edward Thomas Companies, Beverly Hills.

Final Results Certify Passage of Prop. 11 Redistricting Reform

Final certified results from the secretary of state show that the California Chamber of Commerce-supported redistricting reform measure was supported by 50.9 percent of voters in the November general election.

Proposition 11 changes the process for drawing political district boundaries and was sponsored by the League of Women Voters of California, AARP, California Common Cause, the Los Angeles Area Chamber of Commerce, CalChamber, California Forward and the California Business Roundtable.

CalChamber President and Chief Executive Officer Allan Zaremberg was a co-chair of the Yes on Proposition 11 campaign.

The CalChamber has long believed that fair redistricting is a key to meaningful political reform. Proposition 11, the California Voters First Initiative, allows the citizens of California—rather than the Legislature—to create legislative districts that will require elected officials be accountable to the voters.

Urged State Leaders to Adopt Flex Scheduling, Clearer Meal/Rest Period Rules

Contact the Governor and state legislative leaders and ask them to adopt legislation that would allow greater flexibility in individual employee work schedules and simplify meal/rest period requirements.


See Final: Page 11

Inside

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Labor Law Corner

Mandatory Changes in Workplace Employment Posters for 2009

Are there any mandatory poster changes for 2009? What specific posters and pamphlets have been updated for 2009?

Yes, there are mandatory poster changes for 2009, including:

- Equal Employment Opportunity is The Law (EEO—federal);
- Notice to Employees—from state Employment Development Department (EDD);
- Family and Medical Leave (FMLA—federal).

All employers must have the EEO and EDD posters in the workplace.

Employers with 50 or more employees must display the FMLA poster.

Keep in mind that some posters must be on display where applicants and employees can see them. Businesses with multiple facilities and/or buildings, may need more than one set of posters.

Required Pamphlets

The required pamphlets that will be updated for 2009 are:

- Workers’ Compensation;
- State Disability Insurance (SDI);
- Paid Family Leave (PFL);
- Unemployment Insurance (UI).

The workers’ compensation, SDI and PFL pamphlets must be given to all new hires. The PFL, UI and SDI pamphlets must be given to employees who take a leave of absence. The UI pamphlet must be given to all employees who are terminated.

To Order

Required posters and pamphlets are available for purchase at www.calbizcentral.com.

The Labor Law Helpline is a service to California Chamber of Commerce preferred and executive members. For expert explanations of labor laws and Cal/OSHA regulations, not legal counsel for specific situations, call (800) 348-2262 or submit your question at www.hrcalifornia.com.

California Chamber Officers
Edwin A. Guiles
Chair
Frederick R. Ruiz
First Vice Chair
Larree M. Renda
Second Vice Chair
S. Shariq Yosufzai
Third Vice Chair
Russell Gould
Immediate Past Chair
Allan Zaremberg
President and Chief Executive Officer

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Business Resources

International Trade


Labor Law


Next Alert: January 9, 2009
ARB Votes to Require Truck Replacement
Cost of Mandate to California Businesses Will Top $5.5 Billion

The California Air Resources Board (ARB) voted last week to adopt a controversial new regulatory scheme that will require the retrofit and replacement of privately owned and commercially operated diesel trucks.

The regulation, which the ARB estimates will cost more than $5 billion, was approved by a unanimous vote of the board despite protests that the cost will hit small businesses during hard economic times.

**Strong Opposition**

The board listened to nearly two days of public testimony from supporters and opponents of the proposed regulation. At one point, ARB Chairman Mary Nichols, in an effort to count those in support and opposition, asked the two groups to stand and be counted. When it came time for the opposition to stand, it became clear that nearly the entire auditorium was filled with opponents of the regulation.

Opponents of the proposed regulation argued that the economic impact of the regulation would put hundreds of companies out of business and cause thousands of Californians to lose their jobs.

Many opponents argued that the scientific basis for the proposed rule was questionable because the ARB staff made incorrect assumptions that affected the result of their emissions inventory and economic analysis.

Driving Toward a Cleaner California (DTCC), a coalition of business interests from across California’s diverse economy, including the California Chamber of Commerce, has been advocating adoption of an alternative regulation that balances the need for clean air and economic stability.

The DTCC alternative proposal and testimony by DTCC members led a number of ARB members to voice concern about the regulation being proposed by the ARB staff.

**Minor Changes**

As a result of the concern expressed by the ARB members, the staff suggested some minor changes to the rule that would provide increased flexibility to the regulated community.

Among the changes to the rule are:
- A credit for early retirement of vehicles that is retroactive to July 2008.
- A one-year delay in the compliance schedule for small fleets (three or fewer vehicles).
- A promise to revisit the rule in one year in order to review the economic situation and the availability of financing for trucks.

The proposed rule was ultimately adopted with some changes that will have a minor impact on the cost of the rule. Those affected by the regulations will have an opportunity to come back in one year and argue for more changes to the rule.

**Staff Contact:** Jason Schmelzer

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**Study: Oil Tax Proposal Would Give California Heaviest Burden**

California oil producers would pay significantly more tax than in other major oil producing states if California adopts a proposed 9.9 percent oil severance tax, according to a study by LECG, a global expert services and consulting firm.

The proposed 9.9 percent oil severance tax would be more than 50 percent higher in California than the rates imposed by the other nine states analyzed, the study found. Therefore, if the proposed oil severance tax is enacted, California would become the state with the heaviest tax burden on oil producers, the study concluded.

Among actions proposed in November to help reduce the state’s General Fund budget deficit was “to impose an oil severance tax upon any oil producer extracting oil from the earth or water in California.” The tax would be “applied to the gross values of each barrel of oil at a rate of 9.9 percent. Any oil produced by a stripper well, in which the average values of oil as of January 1 of the period years is less than $50 per barrel,” would be exempt from the tax.

According to the state Department of Finance, the proposal assumes that the average price of oil is $58 per barrel, and that the tax will generate $530 million per year. The oil severance tax proposal was also put to a vote on December 16 along with the Democrats’ budget proposal, which failed to garner the required two-thirds majority support.

**Comparison Study**

Released this month, the LECG study, “Comparison of Oil Tax Burden in the Ten Largest Oil-Producing States,” gives readers a sense of how oil companies are taxed in California relative to their counterparts in other states by comparing the total tax burdens the 10 major producing states impose.

To perform this comparison, the authors created a hypothetical oil company with the characteristics of the average oil company in California and estimated the tax burden it would bear in each of the top 10 producing states. The 10 states covered by the study are: Alaska, California, Colorado, Kansas, Louisiana, New Mexico, Oklahoma, Texas, Utah and Wyoming.

**Three Factors**

According to the study’s authors, the total tax burden borne by oil companies depends on three factors: the type of taxes to which they are subject; the tax base; and the tax rate.

Oil companies generally pay the same taxes as other corporations, as well as production taxes levied on the values of oil extracted from the ground. Each oil-producing state has adopted a different strategy for taxing the industry.

*See Study: Page 5*
CalChamber Taps Ruiz as Board Chair for 2009

Frederick R. Ruiz

Ruiz is the co-chair and co-chief executive officer of Ruiz Foods, Inc., a family-owned and -operated frozen Mexican food company headquartered in Dinuba, California. Ruiz Foods employs 2,700 people with three manufacturing facilities and two distribution centers. The company’s signature brand is El Monterey, the No. 1 frozen Mexican food brand in the United States.

Ruiz has more than 45 years experience in the food processing industry. He is a graduate of Tulare Union High School and attended the College of the Sequoias as a business major. It was while Ruiz was still in college that he and his father began to pursue their American dream and founded Ruiz Foods, Inc., in 1964.

Over the last 45 years, Ruiz Foods has received multiple local, regional and national awards and recognitions. In 1983, Ruiz Foods received the U.S. Small Business Persons of the Year Award. The award was presented by President Ronald Reagan in the Rose Garden of the White House in Washington, D.C.

In 2003, Ruiz Foods was inducted into the U.S. Small Business Administration’s Hall of Fame, along with just 22 other U.S. businesses. During the fall of 2003, Ruiz Foods hosted a visit by President George W. Bush.

In 2004, California Governor Arnold Schwarzenegger tapped Ruiz to fill a vacancy on the University of California Board of Regents. Appointed in July, his term will continue through March 2016.

In addition to serving as a board member of several non-profit organizations, Fred Ruiz currently serves as a board member of two public companies and is an advisor and founding member of the Institute for Family Business, California State University, Fresno and a founding member of the Tulare Kings Hispanic Chamber of Commerce.

Executive Committee

The CalChamber Executive Committee also named its three at-large members. Serving in the one-year rotating position will be:

- Frederick E. Hitchcock, chairman and chief executive officer, Hitchcock Automotive Resources, City of Industry;
- Janet W. Lamkin, California State President, Bank of America, San Francisco; and
- Patrick O’Dea, president and chief executive officer, Peet’s Coffee & Tea, Emeryville.

In addition to the at-large members and current officers, the Executive Committee includes the last three Board chairs. The Executive Committee works with the CalChamber’s top management to determine policy, financial and program direction, including, when necessary, providing policy guidance between the Board’s regular quarterly meetings.

Staff Contact: Dave Kilby

IRS Issues 2009 Optional Standard Mileage Rates

The Internal Revenue Service (IRS) has issued the 2009 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning on January 1, 2009, the standard mileage rates for the use of cars (also vans, pickups or panel trucks) will be: 55 cents per mile for business miles driven; 24 cents per mile driven for medical or moving purposes; and 14 cents per mile driven in service of a charitable organization.

According to the IRS, the mileage rates for 2009 reflect generally higher transportation costs compared to a year ago, but the rates also factor in the recent reversal of rising gas prices.

For more information, visit the IRS website at www.irs.gov.
ARB Approves AB 32 Scoping Plan with Little Concern for Economy

Without a realistic assessment of the impact that the AB 32 Scoping Plan will have on existing jobs in California, the California Chamber of Commerce is certain that the state is headed down a path that will slow economic recovery and delay a long-term solution to the budget crisis, CalChamber policy advocate Amisha Patel explained to the California Air Resources Board (ARB) on December 11.

Following public testimony that included concern from California employers, the board unanimously approved the nation’s most sweeping plan to curb emissions with the goal of reducing greenhouse gases to 1990 levels by 2020—a 30 percent reduction.

The changes called for over the next 12 years will affect the products Californians buy, the prices they pay, the cars they drive and the places they live.

The plan spells out 31 rules, including emissions-reduction targets for a wide range of industries, creation of an elaborate cap-and-trade program to limit emissions and requirements for local governments to reduce development.

The ARB will create specific regulations to lower greenhouse gases in the coming months.

Poor Economic Analysis

California’s current budgetary issues are posing tremendous challenges for the business climate in the state. Without an adequate assessment of the impact AB 32 will have on current employment and some plan to mitigate that impact, the CalChamber believes the state will experience increased unemployment rates and an exacerbated recession.

The CalChamber understands that the ARB believes climate regulation may bring new “green” jobs to the state; however, the reality is that this plan will drive up costs for companies currently providing high-quality jobs. The result, in effect, will be a redistribution of wealth that will result in job loss in the short-run and create additional harm in an already-troubled economy.

Although the CalChamber is very supportive of building a strong green business sector in the state, it is important to retain existing industries and help them meet their AB 32 goals.

In its December 11 testimony, the CalChamber urged the ARB to address the various concerns and issues brought forth by peer reviewers of previous economic impact studies, including those from the Legislative Analyst’s Office and the Analysis Group.

The CalChamber also urged the ARB to commission a study that would address the true impact on business and jobs in the state.

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Study: Oil Tax Proposal Would Give California Heaviest Burden

From Page 3

emphasize severance taxes on the values of current production, while others rely more on property taxes or corporate income taxes. Revenues from each of these taxes will increase to some degree when oil processing rises, but some taxes are more responsive than others.

Given that the sales tax and corporate income tax rates in California are the highest of the states considered, on a total tax collection basis, California falls in the middle, the study found. The size of the proposed oil severance tax, however, would push the tax burden on oil producers in California well above that in other states, the study concluded.

CalChamber Position

The California Chamber of Commerce opposes tax increases that single out a specific industry or profession to shoulder billions of dollars of permanent tax burden. These industry-specific taxes kill good jobs and harm industries unique to California.

A new tax on oil production in California ultimately will make California oil more expensive than that produced in foreign countries and will harm the state’s competitiveness. It won’t change the amount of oil used in California, but will result in the loss of high quality jobs in the industry, increased imports to the state and increased prices at the pump.
Foreign Direct Investment Highlighted at Trade Meeting

The positive impact of foreign direct investment on the nation’s economy was emphasized by a federal official December 9 at a CalTrade Partnership meeting led by Secretary Dale Bonner of the California Business, Transportation and Housing Agency and hosted by the California Chamber of Commerce.

“Foreign direct investment plays a major role in the U.S. economy, both as a key driver of the economy and an important source of innovation, exports and jobs,” said Charles Schott, senior advisor for Invest in America, a part of the International Trade Administration, a department within the U.S. Department of Commerce.

Foreign direct investment in the United States is the ownership or control, directly or indirectly, by one foreign person of 10 percent or more of the voting securities of an incorporated U.S. business enterprise or an equivalent interest in an unincorporated U.S. business enterprise, as defined by the U.S. Department of Commerce Bureau of Economic Analysis.

Impacts of Foreign Direct Investment

The United States is the world’s largest recipient of foreign direct investment. In 2007 alone, the United States received $237 billion in foreign direct investment. The many positive impacts of foreign direct investment on the U.S. economy include:

- **Creates New Jobs**: U.S. affiliates of foreign companies (majority-owned) employ approximately 5.3 million U.S. workers, or 4.6 percent of private industry employment. Between 2003 and 2007, foreign companies announced more than 3,300 new projects, yielding $184 billion in investment and about 447,000 new jobs.

- **Boosts Wages**: U.S. affiliates of foreign companies tend to pay higher wages than other U.S. companies. Internationally owned companies support an annual U.S. payroll of $364 billion, with average annual compensation per employee of more than $68,000. On average, U.S. subsidiaries of foreign firms pay 25 percent higher wages and salaries than that of all U.S. establishments.

- **Increases U.S. Exports**: U.S. companies use multinationals’ distribution networks and knowledge about foreign tastes to export into new markets. Approximately 19 percent of all U.S. exports ($195 billion) come from U.S. subsidiaries of foreign companies.

- **Strengthens U.S. Manufacturing and Services**: Of the jobs supported by U.S. affiliates of foreign companies, 30 percent are in manufacturing, accounting for 12 percent of all manufacturing jobs in the United States. About 60 percent of foreign investment in the United States is in the service sector, improving the global competitiveness of this segment of the U.S. economy.

- **Brings in New Research, Technology and Skills**: Affiliates of foreign companies (majority-owned) spent more than $34 billion on research and development in 2006 and $160 billion on plants and equipment.

- **Contributes to Rising U.S. Productivity**: Inward investment leads to higher productivity growth through an increased availability of capital and resulting competition. Productivity is a key factor that increases U.S. competitiveness abroad and raises living standards at home.

**Invest in America**

Invest in America was launched in March 2007 and is the primary U.S. government mechanism to manage foreign direct investment promotion. Efforts are focused on outreach to foreign governments and investors, support for state governments’ investment promotion efforts, and addressing business climate concerns by serving as ombudsman in Washington for the international investment community.

For more information about Invest in America, visit the U.S. Department of Commerce website at [www.commerce.gov](http://www.commerce.gov).

Staff Contact: Susanne Stirling
Economy Improving—But Spending by Business, Consumers to Remain Slow

Economic statistics for the nation deteriorated markedly during the last several months. Reflecting the underlying trends, gross domestic product (GDP) came in at -0.3 percent annual rate in the third quarter, well below the 2.8 percent pace registered in the second quarter and a bit worse than the -0.2 percent decline of fourth quarter 2007.

Plunging consumer spending for goods and some services was the main reason the economy fell last quarter, slicing -2.2 percentage points from quarterly growth. This was the first quarterly decline in consumer spending since fourth quarter 1991.

Also on the downside, residential investment spending reduced growth by -0.7 percentage points, the 10th quarter of negative performance. And a decline in business spending for plant, equipment and software pulled down the economy’s growth rate by another -0.1 percentage point.

Surging government spending (especially at the federal level) was the biggest positive contributor to last quarter’s performance, adding +1.2 percentage points to the economy’s overall growth rate. Also, net exports (gross exports minus gross imports) added +0.5 percentage points to growth in the third quarter. Final domestic demand, which excludes changes in inventories and net exports, fell by -0.1 percent last quarter compared with third quarter 2007, continuing the downward trend in place since summer 2007 and the slowest quarter since the 1991 recession.

Other news also has been downbeat. Non-farm payroll employment has declined every month since December 2007, and the cumulative loss through October was nearly 1.2 million workers. Job counts are falling especially fast in construction, manufacturing, retail trade and the financial and real estate sector.

Worse yet, employment declines have spread to many other industries, reflecting employers’ uncertainty and cautious attitudes. Meanwhile, the nation’s unemployment rate moved up from 4.6 percent in June 2007 to 5 percent in December 2007, 5.5 percent in June 2008, and 6.5 percent in October 2008.

Consumer sentiment is hovering near the record lows of 1980. Weak consumer confidence reflects current labor market conditions and anxiety about the impact of the ongoing crisis in global financial markets.

Recent trends on the inflation front are generally favorable. Energy prices hit new highs in late June to early July, with crude oil briefly testing the territory north of $155 per barrel and regular gasoline prices nearing the $4.60 per gallon mark in California. Both have dropped dramatically, however, with crude testing $60 per barrel and gasoline around $2.55 per gallon by mid November. In a weakening economy, lower transportation fuel costs provide a welcome boost to the purchasing power of both households and businesses.

Nevertheless, recession worries have grown markedly in recent months. As the economy tipped into negative growth, most economic forecasters marked down their economic projections for the fourth quarter and 2009, with a significant proportion now expecting a serious downturn similar to that of 1990-91 (in GDP terms).

The Economic Advisory Council shares these concerns. Economic data reported for September and October revealed the steep declines in employment and sales that usually appear during a recession and few industries are adding any new workers.

**Interest Rates and Financial Markets**

The Federal Open Market Committee (FOMC) dropped the fed funds target rate to 1 percent at its October 29, 2008 meeting, the second 50 basis-point cut that month. The Fed’s main concerns were the “intensification of financial market turmoil” around the world and related fears that tight credit conditions (partly induced by that volatility) could bring down the U.S. and other nations’ economies.

Leading central banks have taken vigorous actions to increase market liquidity and ease interest costs, and governments are injecting equity to shore up banks’ capital positions. In response, there has been a marked improvement in short-term capital markets (see chart on next page). However, corporate bond spreads in long-term markets are still extremely wide, and the yield curve has steepened, making it more difficult and more expensive for all types of private-sector borrowers. The council’s prognosis: the situation is improving, but the battle is not yet won.

**California Economy Flags**

California’s economy has faced the same headwinds as the rest of the United States. Non-farm employment, for example, was down by -0.5 percent over the year to September 2008 in both California and the nation. Unemployment, however, increased by...
Economy Improving—But Business/Consumer Spending to Remain Slow

Positives

On the plus side, industries with higher job counts included education and health, with payrolls up by 2.8 percent; mining (includes oil and gas drilling, +3.8 percent); professional, scientific and technical services (+1.7 percent); and leisure and hospitality (+0.7 percent).

Exports of goods made in California have provided a much-needed boost to the state’s economy. Total state exports grew by 12.8 percent during the first nine months of 2008. The largest category of exports—high-tech manufactures (computers, peripherals, etc.)—edged down (by just -0.02 percent in dollar terms). Exports of transportation equipment, however, soared by 25.6 percent.

Exports of other important California-made products also grew rapidly, such as chemicals (up by 15.7 percent), miscellaneous manufactures (+26.8 percent) and agribusiness products (farm produce, livestock, fish, processed food products, and beverages and tobacco), which increased by a healthy 17.1 percent. The one negative among major industries was a -7.1 percent decline in exports of non-electrical machinery.

Metro Regions

Comparing the state’s major metro areas, regional employment performance has been mixed at best. Even in the areas still reporting gains in non-farm employment, growth has weakened compared with earlier in the year. By September, year-over-year job counts increased only in the Bakersfield, San Francisco and San Jose metro areas.

At the other end of the scale, employment declines have been most severe in Ventura County, Alameda-Contra Costa, Orange County, Riverside-San Bernardino and the Sacramento metro area, with smaller declines in the Modesto, Los Angeles and Stockton metro areas. Job counts in the San Diego and Fresno metro areas also decreased, but at a slower pace, over the 12-month period.

The San Francisco and San Jose areas continue to outperform other regions of the state. In large part, this reflects the stability of the Bay Area’s high-tech sector, where employment is rising (for now), and the biotech sector, which continues to develop nicely. Tourism-related activities are holding their own, though there is concern about the coming months. Construction plays an important role, however, in the Oakland/Contra Costa metro area, and many retail trade and finance industry jobs have disappeared, especially in Oakland and San Francisco.

In Southern California, the motion picture industry has faced numerous challenges in 2008. Though the writers’ strike ended, negotiations with the Screen Actors Guild are dragging on, and shooting of major studio feature films has dropped sharply. While the timing of the industry’s recovery is unclear, the major studios are beginning to ramp up new production.

Elsewhere in Los Angeles, the stronger industries are health care, tourism, technology and some professional services (consulting and architecture and engineering). Residential construction is quite soft throughout the region, especially in the Inland Empire. Orange County has taken substantial hits to its mortgage banking industry and tourism is sluggish. San Diego’s economy is experiencing a mild decline, with growth in biotech, education, health care and tourism only partially offsetting declines in construction, retail trade and financial activities.

Agriculture and Resources

California’s agriculture sector is holding up well. Prices are high for many products and exports are growing strongly. Livestock producers’ profit...
Economy Improving—But Business/Consumer Spending to Remain Slow

From Previous Page

margins are suffering from high feed costs, though they are coming down. All farmers bewail this year’s higher costs of energy and labor. Land prices remain quite high in many agricultural areas. Drought restrictions (see below) are forcing many California farms to make hard decisions about which products to produce and which to reduce or eliminate. Trees as well as crops are at risk.

Indeed, there is great concern about water supply across the state. The recent string of dry years has left water storage at very low levels in the California systems and the Colorado River areas. Both the State Water Project and the Central Valley Project restricted deliveries in 2008, and more cutbacks are anticipated for 2009.

The major unsettled issue is how much water will be permitted to transit the Delta. Resolution of this issue depends on a new Delta fish plan still being developed by the U.S. Department of Fish and Wildlife. Water allocations to parts of the Bay Area, Southern California and the San Joaquin Valley are all likely to be reduced in the plan.

The supply of electricity in California should be adequate in the near-term, but electricity prices will be sharply higher in 2009, reflecting the utilities’ higher costs associated with mandated investments to reduce their environmental footprint and to increase their distribution networks.

Real Estate and Construction

The downturn in housing continued over the last three months, but some interesting changes have been taking place. Here are the revealing statistics for the state’s resale home market: Existing single-family home sales in California soared by +96.7 percent over the year to September 2008, while condo sales were up by +41.7 percent.

Prices continued to fall, with the median price of single-family homes sold in September 2008 (at $316,480) down by -40.9 percent compared to September 2007. The number of homes available for sale represented just 6.5 months supply (at September’s sales rate) compared to 16 months a year earlier.

September’s upsurge in sales partly reflected the weakness of September 2007, when the credit crunch was near its worst. There also have been fundamental geographical and market changes in the “mix” of homes sold, however. In particular, sales have soared in several inland areas of California that experienced high foreclosure rates and where there are large numbers of lender-owned, real estate-owned homes on the market.

“Distressed” sales, i.e., at low, “distressed” prices, have accounted for a high and growing fraction of home sales, which pushed down the state’s median price.

While higher than in previous months, September’s home sales were still -23 percent below the peak sales pace of 2005. Significant further improvement seems unlikely in near-term, as the largest primary mortgage lenders are limiting risk by tightening up the credit quality standards borrowers are required to meet.

Residential construction activity continued at very low levels across the state during the third quarter. Total housing permits were issued at an annual rate of 68,000 units during first quarter 2008 and 75,000 during the second quarter. Permit issuance sank to just 57,000 units (annual rate) during the third quarter, however, a drastic decline of -73 percent from peak construction levels of 2004-2005.

Single-family homes are the most affected. The third quarter pace was -80 percent below the peak years, while multi-family permits were off by “only” -53 percent.

New home builders still have sizable inventories of unsold homes and lots. Construction of new homes has dropped fast and effective selling prices are falling, so the unsold inventories are beginning to decline. This process, however, will take a while. Industry observers do not expect any significant improvement before 2009, with some areas not reaching bottom until a year later.

Commercial Real Estate

Most of California’s commercial real estate markets have held up better than the residential sector, but cracks are beginning to show. Specifically, availability rates have risen in 2008.

The situation is most problematic for retail and office space. Retail sales are weakening and retailers’ access to financing is being limited by the credit crunch. Several chains have declared bankruptcy or closed down altogether, and this trend is expected to worsen in the near-term.

Construction of new retail space is slowing, but rising vacancies mean rents are on the decline. Most areas in California are experiencing retail weakness. The biggest problems, however, are in the Riverside-San Bernardino area.

As for office space, demand has declined, reflecting employment trends in office-based industries, especially finance and insurance. Vacancies are high and rising in Orange County, Sacramento, the Inland Empire and San Diego. As considerable new product is coming into most of these markets, rents also look weaker there when compared to other areas.
Economy Improving—But Business/Consumer Spending to Remain Slow

Industrial real estate markets have been steadier than retail or office, but vacancy rates are rising in this sector as well. Demand for warehouse and distribution space has slackened, reflecting the more somber outlook for retail sales across the United States. Demand for high tech and biotech space, which had been growing nicely, appears to have flattened out.

Though up a bit (to 2.3 percent in third quarter 2008), vacancy rates remain extremely low in Los Angeles County. Vacancy rates are highest in San Jose and San Diego, but declined a bit in third quarter 2008. Also, new construction is slowing. Vacancies are surging in the Inland Empire, where substantial new construction is under way and demand for distribution space has slowed.

The value of non-residential construction permits in California declined by -7.6 percent during the first nine months of 2008 compared with the same period in 2007. Permit activity was up most in Sacramento (+32.6 percent), Los Angeles County (+13.5 percent) and Santa Clara County (+7.9 percent). The biggest declines in permit activity have occurred in Riverside-San Bernardino (down by -29 percent) and Orange County (-28.3 percent). Financing has become extremely difficult to obtain for most types of new commercial real estate projects. Thus, the construction pipeline will empty out, limiting the amount of new supply coming into already-slowing markets.

Risks

Risks are mostly to the downside in this environment. The economy is just starting its descent into recession, and we simply cannot tell how deep the recession will be nor how long.

One key risk appears to be continued volatility in global capital markets. Central banks and governments around the world have poured trillions of dollars into their financial industries and various submarkets, but new problems continue to crop up, calling for still more relief. At minimum, this volatility limits financial institutions’ ability and willingness to take on more debt and to engage in ordinary business and consumer lending, thereby worsening the current credit crunch. The result: business and household spending will slow even more than now seems likely.

A second risk is that the tightening credit crunch and rising joblessness could worsen the current troubles in the state’s housing markets, taking sales volumes back down again. Housing markets can’t begin to approach normal until unsold inventories are reduced significantly. That process was beginning to unfold in the months leading up to September. The credit crunch, however, morphed into a full-blown credit crisis in October, and the consequences for California housing are not yet clear. On the one hand, lenders have become more unwilling to make mortgage loans. Also, the spread of mortgage rates over U.S. Treasury bonds remain wide. On the other hand, several large banks have started special programs to work with borrowers to limit future delinquencies and foreclosures. If the new programs succeed, the decline in home prices could be slowed.

Staff Contact: Dave Kilby

The California Chamber of Commerce Economic Advisory Council, made up of leading economists from the private and public sectors, presents a report each quarter to the CalChamber Board of Directors. The council is chaired by Nancy D. Sidhu, vice president and senior economist for the Los Angeles Economic Development Corporation.

Publication of this report is a project of the California Foundation for Commerce and Education.
California Non-Profit Asks U.S. High Court to Review Loss of Tax-Exempt Status

The U.S. Supreme Court will soon decide whether to review a case where the Internal Revenue Service (IRS) revoked the tax-exempt status of a California company. The issue before the court highlights a major debate in the non-profit arena over what activities deserve tax exemption.

The California-based company, Vision Service Plan (VSP), is the largest not-for-profit managed vision care company in the United States, serving 55 million members.

In 1960, VSP was granted exemption from federal income taxes, pursuant to Section 501(c)(4) of the Internal Revenue Code. In 2003, following an examination conducted in 1999, the IRS issued a final adverse determination letter, revoking tax-exempt status for VSP’s California corporation as of January 1, 2003, without any change in statutory or regulatory law and without any change in the operations of VSP.

Loss of Eligibility

According to the IRS, a non-profit health care organization that limits its benefits to a class of subscribers is no longer eligible for tax-exempt status, unless it also provides some as-yet-unquantified, unspecified amount of “community benefits.”

On December 12, 2005, Judge Lawrence K. Karlton granted the United States’ motion for summary judgment, deciding that “VSP is not operated ‘exclusively for the promotion of social welfare’ as provided for in 501(c)(4):” VSP appealed to the 9th Circuit U.S. Court of Appeals. Appellate argument was heard on December 5, 2007. The district court decision was affirmed on January 30, 2008.

The memorandum disposition issued by the 9th Circuit stated that “while VSP offers some public benefits, they are not enough for us to conclude that VSP is primarily engaged in promoting the common good and general welfare of the community.”

Reconsideration

On March 13, 2008, VSP filed a motion for rehearing/reconsideration by all the judges of the 9th Circuit, which was denied. On August 7, 2008, VSP asked the U.S. Supreme Court to review the case.

In its request for review, VSP argues that the appellate court’s ruling calls into question the tax exemptions for all non-profit health care organizations, including not just otherwise qualified health plans and HMOs, but also hospitals, nursing homes and others.

“This case is being monitored closely by tax-exempt not-for-profits across the country,” said Ken Starr, former U.S. solicitor general, and a member of VSP’s legal team. “Not-for-profits are forced to ask themselves this question—if this can happen to a company that has had a tax exemption for more than 40 years, hasn’t changed their business philosophy to focus on the community and suddenly has their tax exemption revoked without a clear explanation, could we be next?”

Threatens Tax Practices

VSP told the Supreme Court that the revocation of the company’s not-for-profit status threatens established tax practices and congressional intent alike, and jeopardizes the tax-exempt status of an important segment of the economy. The ruling that VSP’s “public benefits” were “not enough” to justify a tax exemption for an HMO provides the industry with no guidance at all, where guidance is urgently required, VSP wrote.

If the court agrees to consider the case, it likely will hear oral arguments in February or March 2009.

Final Results Certify Passage of Proposition 11 Redistricting Reform

From Page 1

Highest Turnout Since 1976

More than 13.7 million voters cast ballots in the November 4 general election, setting a new California record, Secretary of State Debra Bowen announced when releasing the certified election results on December 13.

The November election turnout was the highest since 1976 on a percentage basis, with 79.4 percent of California’s 17.3 million registered voters casting ballots. More than 5.7 million California voters, 41.6 percent, cast their ballots by mail. The remaining 8 million voters, 58.4 percent, voted in polling places.

The highest-ever percentage turnout in California was nearly 88.4 percent in 1964, when Lyndon B. Johnson defeated Barry Goldwater in the presidential race, the secretary of state noted.

Proposition 11 Commission

Proposition 11 creates a 14-member independent citizens commission to redraw state legislative district lines based on strict non-partisan rules. Unlike the old process, Proposition 11 ensures that the redistricting process is open and transparent and will respect existing city and county boundaries and communities.

It excludes individuals with obvious conflicts of interest, including elected officials and their staff, from serving on the commission. The commission will include five Republicans, five Democrats and four members not associated with either party. The initiative also requires the commission to represent the state’s significant diversity, including ethnic and regional considerations. Potential commission members could include university professors, CPAs, physicians, nurses, engineers, community advocates, teachers and more.

For final election results, visit www.sos.ca.gov.
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